FINANCIAL AUDIT IN ROMANIA ACCORDING TO THE INTERNATIONAL AND EUROPEAN REQUIREMENTS

ILIE RĂSCOLEAN, 
ILEANA-SORINA RAKOS *

ABSTRACT: This paper presents the importance of the financial audit, the necessity of improving the organizational framework and of achieving the financial audit missions, respectively extent to which the financial statements of the Romanian economic entities meet the international and European requirements in the field. This paper presents the influence that financial audit seems to have in a long period of time upon the financial reporting in certain economic environments. A questionnaire based on four questions has been used, its outcomes being analyzed and its conclusions laid at the foundation of our entire scientific research. The research was based on the information gathered from financial auditors - natural and legal persons - and from economic entities that are obliged or not to audit their financial statements concerning the way a financial audit mission is developing, with respect to the European and international requirements and the International Financial Audit Standards implementation in Romania. The paper ends up with authors’ conclusions concerning the challenges the business environment is confronted to, these being directly reflected in the efforts the financial auditors must do in order to assess the impact on the financial statements and on the financial performance of an economic entity submitted to audit.

KEY WORDS: audit; quality; economic principles; accurate image; public interest.

JEL CLASSIFICATION: M41.

1. INTRODUCTION AND OBJECTIVES

Provision (delivery) of fast and accurate information is one of the main advantages that guarantee the efficiency and viability of a managerial decision. Even though there are almost 30 years since the multilaterally developed socialist period, the financial audit theme is still actual, being submitted to the most diverse controversial

* Assoc. Prof., Ph.D., University of Petroșani, Romania, ilierascallean@yahoo.com
Assist. Prof., Ph.D., University of Petroșani, Romania, nihilsinedeo_68@yahoo.com
opinions referring to the financial statements, and, respectively, to the financial audit field.

In the present financial-economic context, both the investors and also the regulation organisms are interested in the information details presented in the financial situations, in the society’s response strategy to the changes of the economic climate, and also in the past and future effects that influence the progress of the enterprise (activity).

The tendency of globalization emphasis of the national markets, international financial communication by means of the financial statements, and the financial reporting according to IFRS determined the financial audit to become a stand-alone research area with its own methods and techniques and specific objectives. We consider that financial audit should massively contribute to financial stability, because its role is to offer a guarantee concerning the accuracy of the financial health of all companies. This guarantee has the role of reducing the distortion, to generate the costs cutback in case of bankruptcy that is generally supported by the company’s shareholders and by the society at the same time.

The financial audit strength (robustness) is essential for reestablishing the security and loyalty on the market, contributing in this way to investors’ protection and to companies’ capital cost downsize. A high-quality financial audit contributes to a good market functioning by means of integrity improvement and financial statements efficiency.

In this context the Romanian financial audit market cannot ignore the necessity of consolidating its identity, especially because it is submitted to more and more intense challenges concerning the “international landscape retrieval” relating to the process of joining adequate communication principles with the financial statements users, giving (offering) real meaning to the cohesion process in the financial reporting.

The width and complexity of the transactions and operations (activities) developed by the economic entities, and also the continuous development of the economic environment where these operate, had a crucial influence on the evolution of financial audit. Audit plays a vital (crucial) role in the entities’ functioning, by expressing a reasoned opinion on the real image of the annual financial statements, contributing to tax evasion control, to Romanian economy credibility augmentation in relation with the foreign and Romanian investors, with business partners and with the Romanian banking system.

The investors’ need of obtaining a reasonable level of security related to the fact that the elaborated and published financial statements are not significantly flawed by distortions able to affect their process of rational (reasonable) decisions taking, requires as a necessity that some companies reach out for the professional services offered by financial auditors on certification of conformity to the pre-established criteria of the financial reporting framework in use.

Main objectives of this research are as follows:
(1) research of the aspects related to the financial reporting according to European Directives and the compliance to IFRS;
(2) aspects regarding the harmonization of the Romanian financial audit to the European and international requirements in the field;
(3) practical and theoretical research of the way of implementation of the International Financial Audit Standards in the context of the international and European requirements integration in the financial audit missions in Romania.

2. SPECIALIZED LITERATURE

Back in 1996, at the European level, along with the first Green Book issuance, overwrought by the European Commission, special actions were taken for the elaboration of a unique set of rules related to annual financial statements audit intended to be undertaken in the national law of all the member states of the European Union.

The foreign specialized literature researches were focused on the evolution of the harmonization of the statutory audit and on its impact upon the member states, from many points of view such as: the election of the statutory auditor, new tendencies in the regulation framework of the statutory audit, the assumption of its directives by the member states and the compliance (conformation) to ISA.

The apparition and development of financial audit activity in Romania represented an objective necessity in the conditions of transition to the market economy and of social and economic alignment to the international context. In the opinion of some Romanian authors, financial audit was founded at that development stage of accountancy as a communication science, in the context of a so comprehensive accountancy information that the idea of financial reality certitude could not be reached using the traditional techniques.

The ruling environment (the State) can have an overwhelming influence on the financial audit process, because the entire palette of legal regulations can limit or constrain the professional reasoning of the financial auditor. The State’s influence can also show its presence by the fiscal regulations that have a significant influence on the economic behavior and also can affect the relation financial auditor- economic entity, as stakeholders in the process.

The influence that financial audit seems to have upon the financial statements in certain economical environments has been examined and approached in a great variety of empirical or fundamental researches in a range of time, which shows the fact that the interest on this subject has been unchanged time passing by.

3. RESEARCH METHODOLOGY

Taking into account the above mentioned subjects, the authors made a case study at some economic entities, testing the reaction of two categories of participants (stakeholders and managers), using a questionnaire that contained the following questions:

- Are there necessary in your opinion directions concerning the statutory audit development for the public entities?
- Do you consider that ISA implementation contributes to the quality and credibility of the audited financial statements?
Following the audit of the financial statements, do you consider that the financial auditor’s opinion offers a level of certainty?

Using the above mentioned questionnaire, the empiric research drew conclusions referring to the influence of the theoretically elaborated concepts on the implementation practice of ISA regulations in the financial audit missions which, consequent to the data processing and analysis, led to a final output. The proposed objective was to add to the analyzed theoretical aspects, the quantification of the concern (interest) related to the ISA implementation in the Romanian financial audit missions, by considering the expressed opinions of some economic entities from Hunedoara County, the respondents being individuals and legal persons, and also the measurement of the satisfaction level of the audited entities, respectively the vision and the attitude in solving issues of the researched entities from Romania. The size of the chosen sample consisted of 35 respondents.

Table 1. Categories of respondents and their answers

<table>
<thead>
<tr>
<th>Questions</th>
<th>Respondents category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Are there necessary in your opinion directions concerning the statutory</td>
<td></td>
</tr>
<tr>
<td>audit development for the public entities?</td>
<td></td>
</tr>
<tr>
<td>a) yes</td>
<td>7</td>
</tr>
<tr>
<td>b) no</td>
<td>3</td>
</tr>
<tr>
<td>Do you consider the adjustment to the Audit International Standards as</td>
<td></td>
</tr>
<tr>
<td>being:</td>
<td></td>
</tr>
<tr>
<td>a) necessary</td>
<td>8</td>
</tr>
<tr>
<td>b) useless;</td>
<td>2</td>
</tr>
<tr>
<td>Do you consider that ISA implementation contributes to the quality and</td>
<td></td>
</tr>
<tr>
<td>credibility of the audited financial statements?</td>
<td></td>
</tr>
<tr>
<td>a) yes, largely</td>
<td>8</td>
</tr>
<tr>
<td>b) no</td>
<td>2</td>
</tr>
<tr>
<td>Following the audit of the financial statements, do you consider that the</td>
<td></td>
</tr>
<tr>
<td>financial auditor’s opinion offers a level of certainty?</td>
<td></td>
</tr>
<tr>
<td>a) high level</td>
<td>7</td>
</tr>
<tr>
<td>b) low level</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total number of respondents</strong></td>
<td><strong>10 25</strong></td>
</tr>
</tbody>
</table>

In this study were also taken into account other techniques and procedures as follows: specialized literature review, observation, interview, data collection and processing, synthesis of the theoretical aspects and of the research outcomes.
According to the graphic presentation (figure 1), following the analysis of the questionnaires by the research team, the conclusions were as follows:

- for the public entities regulations referring to the statutory audit development are necessary;
- adjustment to the Audit International Standards is necessary;
- ISA implementation contributes to the growth concerning the credibility and the quality of the audited financial statements;
- the financial auditor’s opinion assures a high level of security concerning the financial statements (reality and accuracy).

Source: own projection

Figure 1. Graphic representation of the questionnaires results
4. THE NECESSITY OF FINANCIAL-ACCOUNTANCY AUDIT IMPLEMENTATION IN ROMANIA

Romania, being a member country of the European Union, is connected to the dynamic and evolution of the European regulations and directives that are going towards closeness to IRFS. This closeness is reflected both in the development (evolution) of the Fourth Directive, and in the approval of the IAS/IFRS Regulation. The permanent development of the financial statements was determined by the Romanian transition to the market economy. In the context of the economic entities’ activity becoming more and more complex, managers were confronted to a much higher probability of getting inaccurate information due to the following:

- Commercial transactions became more complex and more difficult to register accurately and in real time;
- The distance between the information and the users, managers having no certitude to get accurate/secure/real information;
- A huge data volume that also increases the probability level of inclusion of totally erroneous accountancy information in the accountancy synthesis documents which leads to outcomes that are hard to imagine;
- Possibility of manipulation of information between managers and the information suppliers in the last ones’ favor, in other words, existing a high rate of probability to willingly and mischievously misinform the managers, this fact determining the persons in charge at the higher level in hierarchy concerning the audit activity to support, by means of legal regulations, the implementation of the financial-accountancy audit activity in Romania.

While in the past, the financial statements in Romania had put a strong stress on the formal aspect of the financial statements and had focused less on their content, in the present times, due to the normalization of the financial statements, by means of IAS/IFRS, the focus is on essential and minimal data content in a very structured way. At the same time with the implementation of financial audit activity in Romania, the financial auditor’s role has changed, becoming today a good professional with special moral character features that help in realizing a special quality for the information offered, namely its credibility.

Therefore, an auditor has the role of bringing more certitude concerning the way the accountancy information was collected, treated and presented according to the international and national accountancy standards and principles. In our opinion, trust (reliability) is one of the most important resources an economic entity has, along with management and assets (capital). In the specialized literature the necessity of audit is explained by means of three theories, as follows:

- The assurance theory that explains the necessity of financial audit by means of two principles, namely the information principle, according to which, audited information is more credible and useful in the decision making process for the main users (managers, investors and so on), and the assurance principle, according to which, the auditor offers to persons basing their decisions on the
Financial Audit in Romania According to the International and European Exigencies

Audited information a certain level of assurance (security, certainty) concerning the accountancy data/information;

- Motivational theory which explains the necessity of the financial audit by the high professional attitude of those who are in charge with the financial statements elaboration, meaning that they will work in a highly professional manner, knowing that the statements will be audited;

- Agency theory that justifies the necessity of the financial audit stating that investors cannot have complete trust in managers, respectively that the last ones will use the allotted funds without misappropriating them in their personal favor. The agency theory is explained by the fact that the two categories, owners and managers, aim at maximizing their fortune, this fact determining each of them to take advantage of the other’s trust.

These reasons determine the necessity for both categories of information users to designate an independent auditor meant to supervise the financial statements.

Financial scandals determined the occurrence of a new theory, the police theory, in which the auditor is in charge to identify and present the financial frauds detected while he is in audit mission.

Therefore, the necessity of financial audit implementation in Romania is explained by the request existing for this activity, due to: the fact that the users of accountancy information are not usually professionally able to appreciate the quality of the information; the use of financial information in the decisions process, this fact can have economic consequences; the existence of a conflict of interests between, economic entity, accountants and the users of the accountancy information.

In this sense, the auditor should offer a reasonable assurance, by means of an independent opinion concerning the measure of accurate image realization of the financial statements. It is the reason for which auditors are named “the guardians” of the financial statements integrity published by entities. Also, what has been taken into consideration is the fact that trade liberalization and capital movement within the EU countries will be facilitated by the accountancy and audit harmonization in The European Union.

5. Characteristics referring to the integration of European and international requests in the financial audit missions in Romania

The statutory financial audit activity, according to the international and European exigencies is made only by the statutory auditors or by the authorized audit companies or that have the approval in conditions of OUG 90/2008. The quality control is one of the international and European specific requests of the financial audit mission that has as a base the procedures concerning the revision of the financial audit quality and of other activities developed by the financial auditors.

Another European exigency presented in the OUG 90/2008 is represented by the foundation of a public supervision system (SSP) for the statutory auditors at European Union level in order to supervise the approval and registration of the statutory auditors and of the audit companies, to adopt the standards related to professional ethics to the Quality Internal Control System within the audit companies and to audit, to the
continuous training system, to the quality assurance and to the investigation and discipline systems. An authorized entity in this sense is the Council for Public Supervision of the Statutory Audit Activity, whose activity has at its foundation the recommendations of the European Commission related to some aspects of the statutory audit.

This organism represents the main operational structure within the public supervision system of the statutory audit activity and has the role to ensure the improvement of the audit activity, and, therefore, significantly contributes to the increase of the audited financial statements credibility.

One of the requests of the public supervision system of the statutory audit refers to transparency, and another one refers to assuring a non-influenced, sure and proper funds supply for the good functioning of the supervision organism.

We consider it necessary to improve the legislation referring to the statutory audit supervision and an efficient and vigilant public supervision of the audit activity, for the supervision organism to have the ability of extending its attributions and to function according to the European Directive requests (exigencies). The audit committees are organized directly subordinated to the Administration Council and have an advisory functions.

In this sense, there were taken measures in order to create the conditions for the Romanian auditor to be recognized as a European auditor, to integrate the Romanian profession of auditor in the international activity. CAFR is a prestigious organism, and in its quality of full rights member of IFAC, FEE and FIDEF (International Federation of the Francophone Accountancy Professionals) takes part to all the official meetings organized by these international organizations.

![Diagram of Responsibilities (Attributions) of CSPAAS](image)

*Source: Own projection*

**Figure 2. Responsibilities (Attributions) of CSPAAS**

In Romania the main co-worker is CECCAR, the strong collaboration between the two professional organizations being absolutely necessary due to three dimensions: internal dimension of the profession, international dimension of the profession and the third one – the one related to the duty of the Chamber to cooperate with CECCAR.
because there exists a monitoring made by IFAC concerning this particular aspect. CAFR also develops an intensive activity of cooperation with other national institutions, namely MFP, CSPAAS, MAE, CECCAR, CNVM, Romanian Liberal Profession Union, CCF, and Supervision Insurance Commission and with the academic environment.

5.1. Objective necessities of integration of the international and European exigencies in the Romanian financial audit

The financial audit developed within the entities is a function and is performed according to the professional standards agreed at international level, their aim is to offer a minimum level of quality of the financial audit process and a certain prestige of the financial auditor.

The goal of the ISA-s regulations is to give the auditor the possibility to reach the ISA specified objectives, and, therefore, general objectives of the auditor. Therefore, with exception of the exceptional cases, ISAs ask for respecting each relevant disposition for the audit’s circumstances. The documentation requirement is applied only to the disposition relevant to the audit’s circumstances. IAASB clearly states the fact that understanding Standard 200 is very important for the professional auditors because it settles down the way that the explanatory materials, the ones referring to objectives, dispositions and implementation, materials that are included in all the ISAs, should be understood and applied.

There is no explanatory material offered regarding the disposition - “In an auditor’s report, the financial auditor should not declare the conformity to ISA, except if the dispositions of all ISAs relevant to the audit mission have been observed” - this thing puts a stress on the fact that the auditor should pay attention and identify the relevant ISAs for a certain mission before declaring the conformity to ISAs. As other fundamental concepts for audit, the meaning of professional skepticism is difficult to explain in a simple definition. Moreover, there is no single way to demonstrate the professional skepticism. Yet, ISAs definition describes the important elements that help us to understand the meaning of professional skepticism.

We consider that to develop an audit mission according to ISA implies for the auditor the observance of all the relevant standards for the audit mission, fully and correctly understanding of the entire text of them and also of the way of implementation, of the needed materials in order to understand the objectives and imply the dispositions in an adequate manner. Incorrect understanding and implementation of the Audit Standards determines different outcomes. The financial audit does not restrict the management responsibility.

Laws and regulations can establish attributes for the managers concerning the financial statements. At the same time, the auditor has certain responsibilities related to communication and report towards the users, management, government individuals or other parties outside the entity, referring to the elements resulting from the audit mission, mainly stated in ISA240 and ISA260. The question that arises is: “What are the audit standards needed for?”
Let us say, in order to have the certitude that auditors are doing their job in good terms, namely, in order to determine which are the audit proofs needed, how many audit proofs are needed and what audit aspects should be covered by the audit mission. They take into account adequate planning and supervision, understanding the role of internal control and the existence of solid and satisfactory proofs. The understanding of the internal control is important in order to substantiate the financial auditor’s opinion. If the financial auditor is convinced of the efficiency of the internal control system, then the amount of audit proofs will be less than in the contrary case.

Why is it so important for the financial auditor to assure the quality of the services he offers? We consider that we have here two aspects of the financial auditor’s quality of activity, namely the quality of accountancy-financial information that is audited and the intrinsic quality of the audit, both addressing the same clients, respectively the beneficiaries of the financial-accountancy reports and auditor’s reports. In our opinion, it is necessary to imply high quality standards, and the auditors should be able to prove that they had used audit processes and control policies in their own companies or in the developed activity in order to rest assured that these words become a reality.

The construction of a unitary and efficient system that gives confidence in the generated outcomes implies the following:

- an operational and flexible mechanism of improvement and auto-regulation of the system;
- defining the needed procedures for implementation and monitoring conformity to these policies;
- defining the created policies in order to establish and maintain a quality control system which offers the reasonable confidence that the company and its employees are conforming to the professional standards and legal and regulatory requirements applying at the moment and that the reports elaborated (issued) by the company or by the issuing partners are adequate in given circumstances;
- self-evaluation and monitoring of the efficiency of the procedures’ implementation that impose the established policies achievement.

We consider that a favorable element for the improvement of the quality control system is given by the establishment of efficient mechanisms in order to promote an internal culture based on the recognition of the idea according to which quality is essential for the mission accomplishment, for a permanent dialogue and a real communication.

5.2. ISA implementation in the context of the international and European requirements within the financial audit missions in Romania

In the reformation process of the accountant profession in Romania, the national audit norms represent an eloquent reference in the harmonization with international standards and European directives related to the financial audit – instrument that is meant to lead to the improvement of the credibility level of the financial information issued (published) by the social and economic entities, by
governmental and non-governmental institutions and organizations. The ISAs taken over (adopted) by our country are applied in the financial statements’ audit by the financial auditors who are members of CAFR.

The general framework of the International Standards of Audit (ISA120) states that, in order to answer to the common informational requests of the users, the financial statements represent their main informational source. For this reason, the financial statements are elaborated according to International Accountancy Standards, National Accountancy Standards and/or to the mandatory General Framework of financial reporting, conceived for the use of the financial statements. According to this standard—“the objective of an audit mission of the financial statements is to give to the auditor the possibility to express his opinion if the financial statements are elaborated, under all the significant aspects, according to a general identified framework of financial reporting.”

In 2003 was issued a first updated edition of the Audit standards, Edition 2003, the initial sections being submitted to some changes concerning the renaming of some standards. A significant change was the separate prominence of the aspects related to auditors’ report concerning the conformity to the International Financial Reporting Standards. In 2007, after the CAFR Decision no 81/27.03.2007, was adopted Version 2006 of the International Audit, Insurance and Ethics for the professional auditors issued by The International Federation of the Authorized Accountants.

These have been applied in Romania under the name Audit Standards, respectively the Ethic Code and, in order to improve them, until today, they have been submitted to many changes, one of the important aspects being the duty of implementation IFRS by the public entities. Comparing to Version 2006, the Standards ISA210, ISA240, ISA300, ISA315, ISA330, ISA 510, ISA545 and ISA610, from Edition 2008, were submitted to little changes and also in ISA230 were introduced some amendments, this aspect determining completions in International Standard related to the quality control, effective since 15 June 2006, this one becoming ISQC1 – this presents the subject of quality control in the audit companies that make audits and revisions of the historical financial information and other assurance missions and connected services: management’s attributions, ethic requirements, acceptation and continuity, human resources, development of the audit mission, monitoring and documentation.

In February 2009, CAFR decided to adopt the ISAs issued by the Council for International Audit and Assurance Standards of the International Federation of Accountants, Edition 2009 that apply to financial statements audit. A significant element is the implementation of ISA265 - communication of the deficiencies occurred in the internal control to the individuals in charge with governmental control and to the management of the company.

We present here the main characteristics of the implementation of the International Audit Standards in the financial audit missions:

- monitoring of the conformity to the quality control policies and procedures;
- human resources - procedures for company’s performance evaluation, of compensation and promotion, offering adequate recognition and reward for the
improvement and maintaining the competences and for taking the commitment of respecting the ethical principles;

- leaders’ attributes concerning quality within the company – promoting an internal culture within the company oriented to quality depends on the consequent, frequent and clear messages and actions that should come from all the management levels within the company;

- mission completion is based on procedures and policies conceived in a manner that offers the reasonable assurance that is done according to the professional standards;

- relevant ethic requirements.

The company should elaborate procedures and policies conceived in order to offer the reasonable assurance that it maintains itself independent in the cases with relevant ethic requirements and that the employees let know the management about the circumstances and relations generating a threat to their independence, giving the company the possibility to adopt adequate measures for solving such type of situations; accept and continue the relations with the clients and the specific missions. In the evaluation of the capacity, competence and needed resources for contracting a new mission with a new client or an existing one, the company revises the specific requirements of the mission, and also the existing partner’s profile and of the employees working at all relevant levels.

Practice demonstrates that audit companies have no procedures and policies elaborated in order to offer them a reasonable assurance that they will be informed of the independence requirements violation (infringement), which will permit them at the same time to adopt adequate measures in order to solve such kind of situations.

Also, there is no reasonable assurance concerning the adequate consultations that take place referring to the controversial and difficult aspects, the resources availability that permits an adequate consultation process, the documentation and approval of the nature and applying range of these consultations and also the conclusions resulted from them and implemented by means of the elaboration of a specific policy and procedure for the stage Mission achievement. Becoming conscious of the growing fraud risk incidence, companies prove the knowledge of the way of minimizing it by adopting standards related to financial reporting, internal audit and control, security and protection of informatics systems, but also by means of harmonization of the national law with the international one.

6. CONCLUSIONS

Both concerning the qualitative and quantitative aspects, the present offer of financial audit correspond to the requirements of the public interest. Partners of the financial auditors – corporatist management and generally, stakeholders – are more and more convinced by the necessity of this activity which adds up value to a business. Even though financial auditors are seen sometimes as a necessary evil, reality demonstrates that this activity can add up extra value to a business, and the investment in the audit mission cost is useful for the business.
Concerning the public interest related to the accountancy information, to the financial statements, the auditor has an extraordinary role by giving credibility to the accountancy information. There can be no quality information if this is not correlated with auditors’ activity.

According to the International Audit Standards, policies and procedures of the quality control should be implemented both at the audit company level and to the individual audit missions and even at the CSPAAAS level as a supervision organism of the statutory audit activity by means of applying in practice the principles of a good surveillance, ensuring the transparency and responsibility for reaching the requested efficacy, the recognition on the international and national levels as an authority in its fields of activity and supply with the needed operational capacity. It is necessary that ISA should be thought in such a manner that the used terms in the audit activity and the work objective of the auditor should be more articulate. However, practice demonstrates that not everything can be standardized.

The specific requirements stated by many ISAs establish the compulsoriness for the auditor to interview the management in order to determine if they have knowledge of frauds that affect the entity and to communicate the significant denaturations which have been identified, the significant aspects related to the accountancy policies and procedures of the audited entity, referring to the accountancy estimations and adequate presentation of information, the manner the auditor treats the following aspects – significant risks, the significant level (threshold, limit) concept, internal audit activity and internal control which is relevant for the auditor and so on – and the observing of the relevant ethic requirements on auditor’s independence.

REFERENCES:


[15]. HG nr.433/2011 de aprobare a Regulamentului CAFR

[16]. http://www.ifac.org